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MR. BALFOUR'S PAMPHLET

A REPLY

BY

HAROLD COX

SECRETARY OF THE COBDEN CLUB

UNIVERSITY OF TORONTO

THIRD IMPRESSION

T. FISHER UNWIN
PATERNOSTER BUILDINGS
LONDON
1903

Price One Shilling Net

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PREFACE

THE following pages had to be written at high pressure, and it is therefore possible that some words or phrases may have been used which appear unnecessarily harsh or even discourteous. If the reader should find any such, I hope he will accept my assurance that they are only due to the heat and to the hurry of the argument, and that no personal discourtesy has been intended either to Mr. Balfour or to any honest Protectionist.

H. C.

GRAY'S INN,
September, 1903.

MR. BALFOUR'S PAMPHLET
A REPLY

It is alleged that on a famous occasion Mr. Gladstone banished political economy to the planet Saturn. Whether that allegation be true or false, it is certain that Mr. Balfour has derived his economic views from some equally distant planet. The pamphlet which he has issued to the world as a professed explanation of his opinions is founded entirely upon conjectures and suppositions, which have so little relation to the real facts of British life and British commerce, that it is hard to believe that the author is really an inhabitant of this planet and actually the Prime Minister of this country.

Indeed, it is charitable to suppose that Mr. Balfour in writing his pamphlet was compelled by pressure of other occupations to neglect altogether the ordinary sources of information with regard to terrestrial economics. For when, in the course of his argument, he ventures to depart from hypothetical cases and to appeal to facts, the statements he makes are, in at least five instances, untrue. That is a serious charge to make, but it will be proved up to the hilt in the following pages. No one of course believes that Mr. Balfour would deliberately state what he knows to be untrue, but the gulf between his statements and the facts is so wide that it is difficult on any theory to explain the discrepancy.

The following is a list of the more important misstatements made by Mr. Balfour. In order to understand the seriousness of this list it must be realised that

the statements are made without reserve or exception, and are often rhetorically emphasised by repeated iteration. They are moreover the buttresses of supposed fact upon which the adjoining argument depends. They happen to be untrue—not merely inaccurate, but the direct reverse of truth.

He clearly implies (p. 8) that at the time when England adopted Free Trade other nations were already Free Traders. *This is untrue.*

He states (p. 8) that all Western nations, without exception, are Protectionists. *This is untrue.*

He states (p. 11) that the commission of "1900" (*sic*) reported that the Island of St. Vincent could produce nothing but sugar. *This is untrue.*

He states (p. 19) that no Bradford goods go to America. *This is untrue.*

He states (p. 19) that no British bleach goes to Russia. *This is untrue.*

The above list does not include minor inaccuracies, nor does it include many statements which are fundamentally untrue, but which are made in somewhat vague language. The list is limited to definite and precise statements with which Mr. Balfour tries to support his abstract argument.

The apparent object of the pamphlet is to establish a proposition, and to present a demand. The proposition is that foreign protective tariffs injure Great Britain. The demand is that Great Britain should be endowed with the liberty of retaliating upon foreign protection. The first proposition is neither more nor less than a truism. No Free Trader has ever denied that foreign tariffs injure Great Britain. The injury is obvious and palpable. The whole of Mr. Balfour's laboured demonstration of this point is therefore waste of time and patience. Equally superfluous is his demand that Great Britain should be endowed with liberty to retaliate. That liberty she already possesses. There is nothing

whatever to prevent any Prime Minister from proposing a retaliatory tariff as soon as his own convictions are sufficiently settled to enable him to decide upon what country he wishes to retaliate and upon what articles his tariff is to fall. Indeed, Mr. Balfour's Government has already exercised this liberty of retaliation. The Sugar Bill of last Session was avowedly a retaliatory measure. It was directed not only against the money bounties which continental Governments pay, but also against the indirect bounties which continental producers are enabled to secure by forming a trust under the shadow of a protective tariff. This latter is the very evil of protection which Mr. Balfour specifies as his strongest argument for demanding the liberty to retaliate. Yet in the case of sugar he has already retaliated. Thus after thirty pages of print he arrives at a proposition which every man of common-sense, whether Free Trader or Protectionist, takes for granted, and formulates a demand for the creation of a liberty which already exists and which he has himself already exercised.

The Inner Purpose of the Pamphlet.

Why, then, is it worth while to answer this pamphlet? For this reason, that Mr. Balfour, while professing only to lay down propositions which are innocuous because they are self evident, is in reality furnishing arguments to his Protectionist friends. The whole inner purpose of the pamphlet is to show that Free Trade, as practised in the United Kingdom, has been a failure, and the only practical conclusion which can be drawn from this argument is that we ought now to try Protection. Possibly Mr. Balfour does not want any practical conclusion to be drawn from his pamphlet. He may honestly believe that it is worth his while, for the pure pleasure of the thing, to try and demonstrate self-evident propositions by unsound arguments, as a kind of mental gymnastic for the

holiday season. But, unfortunately, his fellow-subjects cannot rid themselves of the vulgar idea that a Prime Minister exists to do practical work or to make definite proposals. Doubtless this view ought to be regarded as an exploded shibboleth, but it still lingers on in a nation that remembers the names of Chatham, Pitt, Peel, and Gladstone, and has not yet grown accustomed to the new conception of what a British Prime Minister should be. Even Mr. Balfour himself pays tribute to this surviving superstition—that a serious nation should have a serious minister — for he puts his pamphlet forward under circumstances which suggest that he really wishes to be taken seriously. We are bound, therefore, to regard his pamphlet, not merely as a playful exercise in logic chopping, but as a serious contribution to current controversies. From this point of view it can only be treated as a Protectionist pamphlet, and as its author is Prime Minister of Great Britain and Ireland, it requires an answer.

The Doctrine of Laissez Faire.

The first point which calls for reply is in Clause 5 on page 6. Mr. Balfour here deals with the general doctrine of *laissez faire*, and he argues that because we have adopted factory legislation, compulsory education, and other interferences with individual liberty, therefore "we may accept provisionally the view that the character of our fiscal policy should vary with varying circumstances." It is a little surprising to find a man of Mr. Balfour's acute intelligence adopting as his own this familiar tag of the Protectionist rank and file. In order to make the argument logically valid it is necessary to prove that there is a direct connection between Factory Acts or Education Acts and Protective tariffs. A mere analogy is insufficient. The State forbids a man to take his bath in public, but even the author of the Birmingham leaflets would hardly argue that this establishes a *prima facie* case for an analogous law for-

bidding the public use of a pocket handkerchief. As a matter of fact, however, the examples which Mr. Balfour cites (with the single exception of Housing legislation) are not even analogous to the object at which he is aiming. Factory legislation, compulsory education, inspection of mines and mercantile marine Acts, all owe their existence to the principle that it is justifiable to limit the liberty of the individual for the advantage of the community. A Protective tariff, on the contrary, limits the liberty of the community for the benefit of a few favoured individuals. The only common feature of the two cases is the invocation of the power of the State. That is also an essential feature of the criminal law. Therefore Mr. Balfour's argument comes to this—that because the power of the State is daily invoked to prevent one man picking another man's pocket, it may also be invoked to assist one man to pick the pockets of many men and women, by giving him a legal right to extort a higher price for his goods than he otherwise would be able to obtain. This is the paradox to which Mr. Balfour's argument leads, and it is a fair specimen of his logical methods.

Early Free Traders and Foreign Tariffs.

The second argument which Mr. Balfour employs has been culled like the first, and with equal carelessness, from the well-worn stock used by the commonplace Protectionist. For more than a generation Protectionists have been repeating one after the other, like parrots, the ridiculous tale that Free Trade was adopted in this country in the anticipation that all other countries would follow our example. Mr. Balfour adopts and expands this fiction. To quote his actual words the English Free Traders of fifty or sixty years ago "failed to foresee that the world would reject Free Trade." And again: "In circumstances so little foreseen we are driven to ask *whether a fiscal system suited to a Free Trade nation in a world of Free Traders remains*

suited in every detail to a Free Trade nation in a world of Protectionists." (The italics are Mr. Balfour's.) If these passages mean anything at all they can only mean that at the time England adopted Free Trade, all the rest of the world was enjoying the same system. How this extraordinary delusion can have entered Mr. Balfour's head it is difficult to imagine. When England adopted Free Trade she was not surrounded by a world of Free Traders, but by a world of Protectionists. The Protection which France and Germany practise now is as nothing to the Protection which they maintained, not only at the time that we became Free Traders, but also for many years afterwards. Our first steps towards Free Trade were taken as early as 1823. Then, after a long interval, with comparatively little though some progress, there came Sir Robert Peel's great Budget of 1842, which abolished or reduced the duties on no fewer than 750 articles. Four years later, in 1846, there followed the dramatic triumph of the repeal of the Corn Laws, and this was accompanied with the abolition or reduction of about 150 of the remaining duties on manufactured goods.

All this while our great continental neighbours remained rigidly Protectionist. Not only were their duties enormous, but in many cases foreign countries absolutely prohibited the importation of British goods. It was not until 1860, or fourteen years after the abolition of the Corn Laws, that Cobden broke through this wall of tariffs and prohibitions by his personal influence upon the Emperor Napoleon. The example of partial Free Trade set by France was followed by Germany in 1865, and for some twenty years both countries remained partial Free Traders. In the early eighties, under the influence of Bismarck, a reaction came, and both countries have since taken many steps backwards. But in spite of this reaction and its consequences, their tariffs still remain far more liberal than those which

existed at the time that England adopted Free Trade. Mr. Balfour's whole argument on this point therefore fails absolutely, for the simple but sufficient reason that it is based upon a pure fiction. It may be added that even in the details of his argument he is as careless of his facts as in his main proposition. He says: "Irrespective of race, of polity, and of material circumstances, every other fiscally independent community, whose civilisation is of the Western type, has deliberately embraced in theory if not in practice the Protectionist system." If he had been content to state that the vast majority of Western nations are Protectionist, his statement would have been true, and he is entitled to any inference that can be drawn from the fact. But his statement as here made, without exception and without qualification, is untrue. Holland is certainly a Free Trade country in theory, while in practice she limits her tariff to very light duties for revenue purposes only. Denmark has Protective duties on a few articles, but her main industry, agriculture, is entirely unprotected, and there is but little element of Protection in most of the items of her tariff. The colony of New South Wales is an even stronger example of a "fiscally independent community" maintaining Free Trade until it was absorbed into the Commonwealth of Australia. Thus there are at any rate three exceptions to Mr. Balfour's emphasised and re-emphasised statement.

Cobden's Prophecy and Peel's Declaration.

The important point, however, is that Great Britain adopted Free Trade, knowing that nearly all other countries were Protectionist, and having good reason to expect that they would remain so. It may be replied, But surely Cobden prophesised that other countries would become Free Traders. He did. He made that famous prophecy in January,

1846. But the final Free Trade victory had been won in December, 1845, when Peel decided to propose the abolition of the Corn Laws. Do modern Protectionists really believe that their great bogey man had such superhuman power, that he was able to bring about events by means of prophecies pronounced after the events had occurred? There is, as a matter of fact, not a tittle of evidence to show that the decision of England to adopt Free Trade was in the least influenced by the anticipation, or even by the hope, that other countries would follow her example. On the contrary, it can be proved conclusively that this decision was taken without regard to its effect on the policy of other countries. It is sufficient here to point to the great speech of Sir Robert Peel on January 27, 1846. He then told the House of Commons that he had no guarantee to offer that other countries would follow our example. He went further. He admitted that our previous reforms had not produced any response from other countries. They continued to tax our goods although we had largely ceased to tax theirs. All this he admitted and emphasised, and then he proceeded to argue that it was our interest to open our ports regardless of the policy that other countries might pursue. Surely Mr. Balfour, who now stands in the place where Peel once stood, might have troubled to refer to Peel's own words before misrepresenting his work. That is enough to say about a myth that has already served as a substitute for argument to a whole generation of Protectionists.

An Imaginary Island.

Two of Mr. Balfour's principal arguments have now been disposed of. We come next to an argument which has, at any rate, the merit of originality, and to which he devotes many pages. The argument begins with the statement that Free Trade will not "under conceivable circumstances" save a country "from being worse off

than it would have been if it had never pursued a Free Trade policy at all" * (p. 9). This cryptic utterance is illustrated by an imaginary case of an island that "had founded its industrial system on a Free Trade basis," and "encouraged the growth of population and the investment of capital," only to discover that its industries were at the mercy of foreign Protectionists. From this imaginary island Mr. Balfour passes to the real island of Great Britain, and, after assuming that foreign countries are engaged in a deliberate conspiracy to destroy British industries, arrives at the conclusion that, if they succeed, "the island would no longer be able to support its existing population, nor would any equilibrium be attained until, at the cost of much suffering, it was reduced to the position of being self-sufficient" (p. 13).

This sounds very terrible, but what does it all mean? Let us deal with the real island first. If Mr. Balfour's pages 9 to 13 be examined carefully, it will be seen that he constantly confuses the real Free Trade system actually practised by Great Britain with the imaginary Free Trade system which he supposes the rest of the world at some unknown period to have adopted. His assumption is that foreign Free Trade built up British industries. The assumption is absurd, for the simple reason that our principal customers have never been at the best more than partial Free Traders, and that only for a limited period. But even supposing that Mr. Balfour's fancy were real, in what way would the position be improved by our adoption of Protection? The terrible disaster pictured by Mr. Balfour is the reduction of this island to the position of being self-sufficient through the action of foreign

* Mr. Balfour also says in this passage that Free Trade "may not save a nation from suffering more by the adoption of a protective policy by its neighbours than do those neighbours themselves." He offers no proof of this proposition, and indeed it is by its nature incapable of proof.

Protectionists. But our adoption of Protection would only accelerate that end by doubling the barriers in the way of our foreign trade. Indeed, most Protectionists advocate Protection because they want England to be self-sufficient. Mr. Balfour is able to see clearly that this Protectionist ideal would be a national disaster, but while dreading the goal he invites his country to follow the path that fatally leads to it.

The Legend of St. Vincent.

Let us now turn to Mr. Balfour's imaginary island. This island is described as being a small island unable to produce anything which the protective countries do not produce for themselves with the aid of Protection. He continues:—

"In such circumstances I conceive that the fiscal policy of these countries would completely ruin it (the island); and that they would suffer but little in the process. This case, I may parenthetically observe, is not unlike that of our own colony of St. Vincent, where, according to the Commission of 1900, nothing could be produced but sugar—sugar, which under the then prevailing system of bounties could nowhere be sold except at a loss."

The above statement illustrates, in a manner which the least intelligent person will be able to understand, the extraordinary carelessness with regard to facts which is one of the most unfortunate of Mr. Balfour's characteristics. In the first place, the Commission to which he is obviously referring, the West India Royal Commission, did not belong to the year 1900, but to the year 1897. But let that pass. The important point is that the above-quoted statement with regard to the report of the Commission is absolutely at variance with the real facts.

The Commission did not report that nothing could be produced but sugar, nor is it true, as Mr. Balfour's statement implies, that the failure of the St. Vincent sugar

industry was due to the system of bounties. At the time that the Commission reported, and for several years previously, the production of sugar was only one among several industries carried on in the island of St. Vincent. In the appendix to their report the Commissioners quote the following figures showing the exports from St. Vincent for the year 1896 :—

Collective Sugar Products	... £24,248
Subsidiary Products	... 33,188

Among these so-called subsidiary products arrowroot alone figured for £20,506, or nearly as much as all the sugar products put together. That is surely a sufficient answer to Mr. Balfour's statement that "according to the Commission nothing could be produced but sugar."

Equally misleading is his reference to the "then prevailing system of sugar bounties." It is true that the Commissioners reported that the sugar industry in St. Vincent was on the verge of extinction, but what was the reason they gave?

Here are their words :—

> "§ 365. No improvements have been introduced in the manufacture of sugar, and the sugar canes have in recent years suffered very severely from disease, this disease being in all probability due, to some extent, to want of effective cultivation."

And again :—

> "§ 372. We do not think that under the conditions that are likely to prevail in the future the production of sugar for export on a large scale could be permanently carried on in St. Vincent unless modern machinery were set up and the most approved processes of manufacture adopted."

These quotations are sufficient to show how completely Mr. Balfour has misrepresented the problem of the island of St. Vincent, as revealed by the report of the Royal Commission. The incident is of importance, not merely from the point of view of the

influence his pamphlet may have on public opinion, but also as illustrating the kind of knowledge which guided his Government in framing the Sugar Bill of last Session. This Bill was avowedly intended for the relief of the West Indies. It was for the sake of the West Indies that British delegates were sent to the Brussels Conference; it was for the sake of the West Indies that the Government, in spite of the opposition of many of their supporters, forced the Bill through the House of Commons. Why did they thus press upon a reluctant Parliament a measure which can only benefit the West Indies by raising the price of sugar to the 41,000,000 inhabitants of the United Kingdom? They did it because they had been told, and apparently believed, that the West Indies would collapse altogether unless the owners of badly cultivated and ill-equipped sugar estates were endowed with additional profits at the expense of the people of Great Britain and Ireland. Their minds had been poisoned by the whispered mis-information of interested persons, and they refused to believe, or even probably to read, the report of their own Royal Commission. That is why the British nation now has to pay more than £7,000,000 a year for Mr. Balfour's first experiment in the policy of retaliation.

Hypothetical Ruin.

We can now leave Mr. Balfour's imaginary island and this particular batch of imaginary facts. There are others to follow. After devoting three chapters to showing how "under conceivable circumstances" Great Britain might be reduced to a condition of self-sufficiency by a conspiracy of foreign nations to ruin her trade, he opens his sixth chapter by asking:—

"Why, then, is it that Great Britain does not suffer all the ills with which our hypothetical island was threatened? That it does not is manifest."

It is pleasant to find that Mr. Balfour is satisfied

that Great Britain is not ruined yet. But having made this admission, it is clearly necessary for him to explain how the ruin which, according to his theory, ought to have befallen Great Britain, has somehow been avoided. His explanation is as follows:—

"(*a*) Foreign countries owe us a great deal of money, which they pay by means of imports into the United Kingdom.

"(*b*) Large areas still remain which are not protected at all.

"(*c*) Existing protected areas are not completely protected."

Those three points do not perhaps cover the whole ground quite so completely as Mr. Balfour seems to think, but it is not worth while here to enter into the close economic argument which a fuller consideration of the problem would involve. It is more important to see what Mr. Balfour makes of his three selected reasons.

He admits of course that it is an advantage to this country to possess investments abroad which bring in every year a handsome tribute of interest from those countries that are using our capital. He suggests, however, on page 16, that to some extent these investments may be due to the inducements which foreign Protection offers to British capital. There is undoubtedly some truth in this. British firms, finding their goods shut out by a foreign tariff, have established branch works within the ring fence of that tariff and continue to carry on a profitable business. Possibly Mr. Chamberlain could furnish Mr. Balfour with a practical example of this transference of British capital to foreign countries. That a transference of this character is injurious to British workmen nobody denies. But this evil of foreign Protection is in no way due to our practice of Free Trade, nor would it cease if we adopted Protection. Exactly the same process goes on, and upon a far larger scale, across the border between Canada

and the United States, though both countries are Protectionist.

What Mr. Balfour fails to see is that while foreign Protection attracts some British capital, British Free Trade attracts other British capital and also capital from foreign countries. Why, for example, has the shipbuilding industry passed from the United States to the United Kingdom? No answer that meets all the facts can be given, except this, that in Great Britain all the materials employed in shipbuilding are free from taxation. Oh! but some Protectionist may reply, German shipbuilding is going ahead also, and Germany is a Protectionist country. Exactly! Germany is a Protectionist country, but as she wishes to develop a mercantile marine of her own she has had the good sense to abandon Protection absolutely so far as shipbuilding is concerned. Everything required by German shipbuilders is exempt from taxation. Even the cutlery and table linen that are placed on a transatlantic liner pay no duty. The German shipbuilding industry is, in fact, an admirable illustration of the way in which industries flourish under the influence of Free Trade.

How to Develop Industries.

Let us look at this important question of the development of industries a little more closely. The problem for every manufacturer in every part of the world is to secure as wide a margin as possible between the cost at which he produces and the price at which he sells. As long as that margin is wide enough, it does not matter to him whether its width is due to a low cost of production or to a high price of sale. But it matters very greatly to the public. If the manufacturer secures his profit by selling dear, the consumer suffers; if on the other hand the manufacturer's profit is secured by producing cheaply, the whole nation shares in his gain. On the one plan the interests of consumer and producer are opposed; on the other plan they are harmonised.

Realising this fundamental economic fact, British Free Traders insist that the State shall not add to the cost of production by taxing either the raw materials or the tools employed in any industry, or by taxing the food or other necessaries required by any workpeople. Foreign Protectionists, on the other hand, fix their attention entirely on the selling price, and in order that some producers may be able to sell dear, taxes are placed upon many of the most important articles that the nation requires for its industries or consumes in its homes. The favoured few may gain by this system; the nation certainly suffers.

Thus when Mr. Balfour complains that foreign Protection entices British capital into foreign countries, he omits to mention that the interest on this capital has to be partly paid by a tax upon the general wealth of that country, for this capital would, by hypothesis, be unable to earn a profit if it were unprotected. On the other hand, when capital flows into a Free Trade country, as, for example, when an American firm establishes engineering works near Manchester, or when an American sewing-machine factory is built near Glasgow, the interest paid on the capital is earned by the industry itself, and imposes no burden upon the general body of British taxpayers.

However, Mr. Balfour sees clearly enough (page 17) that our investments abroad are for the most part not due to foreign Protection. They are due to the enterprise of Englishmen who are assisting in the development of the natural resources of foreign countries. In so doing they are adding to the wealth of this country, by enabling us to obtain at lower cost than would otherwise be possible the good things we need for our own consumption.

In the next chapter—Chapter VIII.—Mr. Balfour deals with the "large areas which still remain not protected at all." Among these he includes the States of South America and "the small, non-manufacturing

States of Europe." These countries, he argues, import manufactured goods, "not because they will, but because they must." The phrase would be unimportant if a similar phrase did not appear elsewhere in the pamphlet. On page 22 Mr. Balfour speaks of some of our exports being "necessary" to the foreign protected manufacturer. There is thus clearly in his mind an underlying belief that British exports consist of two separate categories. One category is composed of articles which foreign countries buy merely to give pleasure to us; the other comprises all those British articles that foreigners buy because they actually want them. Mr. Balfour is convinced that the second category alone will survive. I quite agree with him. As to the first category, he will probably find on enquiry that it does not come from Great Britain at all, but from that imaginary island to which he devotes so many pages. The whole of this chapter might have been omitted if Mr. Balfour had grasped the fairly obvious fact that these non-protected countries are engaged in the export of raw materials or food, and require to be paid for what they export. Therefore they must import manufactured goods from somewhere. So long as we can produce more cheaply than our rivals, these neutral countries will buy from us. Any Protective tariff that we might adopt could only add to the cost of our production, and thus hasten the day, which Mr. Balfour dreads, when these neutral markets may pass from us.

An Extraordinary Blunder.

Chapter IX. opens with the accurate statement that "tariffs, even in the most Protectionist countries are not absolutely exclusive." At this point Mr. Balfour seems to have reflected that perhaps he was admitting too much. He therefore pulls himself up, and proceeds to make the following qualification of what he had already written:—

"In some of those countries, and for some of our main industries indeed, no loophole is permitted. The barrier is impregnable. Bradford goods do not go to America, nor does bleach to Russia."

The average man, on reading this passage, would assume that of course the Prime Minister had taken pains to verify his facts, and that his assurance could be accepted without hesitation. The average man will therefore be surprised to learn that both the statements of fact contained in this sentence are absolutely untrue.

By Bradford goods Mr. Balfour evidently means woollen goods. If he had known anything of the woollen trade he would have known that America is one of the best markets for high-class woollens. Our woollen and worsted exports to America in 1902 were as follows:—

Yarns, woollen and worsted	£29,000
,, alpaca, &c.	4,500
Tissues, woollen and worsted	1,481,000
	£1,514,500

So much for Mr. Balfour's "impregnable barrier" in the case of woollens. His statement with regard to bleach is equally remote from the truth. An examination of the last published "Annual Statement of Trade and Navigation" shows that Russia takes more British bleach than any other single country except the United States.*

* The exports of bleaching powder in 1902 were:—To Russia, 35,000 cwt.; Sweden, 19,700 cwt.; Norway, 9,800 cwt.; Denmark, 2,900 cwt.; Germany, 2,900 cwt.; Holland, 24,800 cwt.; Portugal, 11,600 cwt.; Spain, 9,200 cwt.; Italy, 34,200 cwt.; U.S.A., 649,700 cwt.; Brazil, 2,500 cwt.; other foreign countries, 38,200 cwt.; Cape of Good Hope, 4,300 cwt.; British East Indies, 31,200 cwt.; Canada, 14,900 cwt.; other British possessions, 5,700 cwt.

After this unfortunate beginning, Mr. Balfour proceeds to consider what he calls the tendency of our export trade. He admits that our exports have increased absolutely, but complains that they have not grown with our growth, nor with the yet more rapid growth of some of our customers. Assuming this complaint to be true, why does Mr. Balfour make it? The argument with which he sets out is, that exports are required to pay for imports (see p. 7). He presses this point again and again, and insists on the danger to our imports if our export trade were destroyed. All this is perfectly legitimate as long as he confines himself to abstract argument. But when he comes to test his argument by facts, obviously the question he has to ask is not "Are our exports declining?" but, "Do our imports keep up?"

Mr. Balfour's Logic.

Provided our imports do keep up, then the whole object for which exports exist is served, and there is no cause for further worry. Till recently the Protectionists would have replied by suggesting that we were living on our capital, and that British owners of American railway stock were generously parting with their scrip in order to buy foreign flour for our starving British poor. That ridiculous myth appears no longer to have currency even in Protectionist circles. Mr. Balfour emphatically dismisses it: "I can find no evidence that we are living on our capital" (p. 28). If, then, we are not buying imports by selling capital, and if, nevertheless, imports continue to increase, clearly there is nothing left for Mr. Balfour to complain of. Why, then, does he complain? Because his whole economic argument has been twisted out of shape by the desire to say something that will give comfort to his Protectionist friends. It is this desire that leads him into logical as well as statistical absurdities.

Of his logical blunders an excellent illustration is

to be found in the chapter we are now dealing with. After complaining that our exports have not grown with our growth, he goes on to examine the reply often made by Free Traders that other countries must inevitably, as time goes on, learn to manufacture for themselves. He answers as follows :—

"But this argument is wide of the mark. No complaint is made of the relative growth in wealth, population and prosperity of other nations. This ought on the contrary to be a matter of rejoicing. We might expect on the Free Trade theory to gain, not to lose by it. It should increase, not diminish, the rate at which we grow richer."

The "rate at which we grow richer" ! ! ! Thus Mr. Balfour in his desire to be pleasant to Birmingham has actually adopted the vulgar Protectionist delusion that a nation grows rich by what it sends away. In defiance of all his previous argument "the rate at which we export" now becomes identical with "the rate at which we grow richer." Surely not in vain has Mr. Seddon lectured to His Majesty's ministers.

The same page (20) contains the following curious footnote—

"I do not, of course, mean that under a system of international Free Trade there would have been no competition between industrial nations; but only that there would have been much less competition and much more co-operation."

What does this mean? International Free Trade could never be more complete than the Free Trade that exists between two counties of the United Kingdom or two States of the American Union. Does Mr. Balfour really imagine that competition only exists between manufacturers when they belong to different countries? Is he really unaware that the keenest competition, from which every manufacturer suffers, is the competition of the man in the same street?

On page 21 there is a phrase which it is important to notice. Mr. Balfour speaks of the struggles of a "Free Trade country" to pierce the barrier of foreign tariffs. In the same way on page 13 he says that "Free Trade requires open markets somewhere," and again on page 29 he speaks of the injury which foreign Protection is calculated "to inflict on a Free Trade country." These phrases must be slips of the pen, for it is extremely improbable that Mr. Balfour, in order to cast discredit upon Free Trade, would impute, to it alone, a weakness which equally belongs to Protection. Protectionist countries as well as Free Trade countries "require open markets somewhere," are injured by foreign Protection, and "try to pierce the barrier of foreign tariffs." Protectionist countries are, as a matter of fact, always negotiating with one another for the removal of the barriers which they respectively create, and the amusing feature of the situation is that whatever reciprocal concessions they may win from one another we as a Free Trade country at once enjoy by virtue of the most-favoured nation clause. But it is one of the curiosities of Mr. Balfour's pamphlet that he nowhere even mentions this important factor in our commercial relations with foreign countries.

Mr. Balfour's Statistics.

In Chapter X. Mr. Balfour indulges himself in a dose of statistics. He cannot be congratulated on the result. Having adopted the Protectionist absurdity that the wealth of a country is measured by its exports, he wishes to justify by figures his contention that there is a tendency for our exports to decline. The figures of the Board of Trade do not quite bear out the case he wants to prove. He therefore deducts three of the most important items in our export trade—coal, machinery, and ships. His defence of these deductions is that:—

"The true ground of the distinction is to be found

in the fact that these commodities foster in an especial degree the competition of foreign protected manufactures" (page 22).

Let us leave the argument aside for a moment and look first at the facts. With regard to coal, the primary fact is that about half of all we export goes to feed the boilers of British ships.* This coal is sent to depôts at foreign ports, and British ships call to pick it up as they want it. In what way does this export "foster foreign manufactures"?

Next with regard to machinery! Mr. Balfour does not apparently know that machinery exports include agricultural steam engines and other agricultural machinery to the total value of £1,444,000. By the export of this machinery we are helping to develop the wheat-growing areas of the world—an object which on the very next page, in the course of another argument, Mr. Balfour declares to be "eminently desirable." Another large item in our machinery exports is locomotive engines—£2,299,000. These are probably employed to no small extent in dragging foreign or colonial wheat to the sea to be shipped to Great Britain. There is also a large item of £1,849,000 for "other steam engines," of which many would be for use in mines and at docks. Do these also "foster foreign manufactures"? Mining machinery proper accounts for £548,000, and there is an item of no less than £1,840,000 for sewing machines.

These items together account for more than a third of our total exports of machinery. So that even admitting Mr. Balfour's argument, he is only entitled to deduct two-thirds of our total export of machinery.

With regard to ships it is pertinent to compare his desire to limit the sale of ships to foreign purchasers, with the remarks which he makes in a footnote on page 26 as to the combinations formed by British

* See paper by Mr. D. A. Thomas, M.P., in the Journal of Royal Statistical Society.

shipowners. Surely one of the best ways of breaking down any ring of British shipowners is to permit foreigners to buy the best ships, namely British ships, and compete with the ring. The sea at any rate is open. However, the whole of his argument on this point is unsound. It is a mere repetition of the arguments that were used in the days when the export of British machinery was forbidden lest foreign manufacturers should benefit by the use of our inventions. Is Mr. Balfour prepared to revive this prohibition? If he really believes what he clearly states, that the export of coal, machinery, and ships is an injury to this country, it is his duty as Prime Minister to propose that the export of these commodities be entirely forbidden. Is that one of the proposals that is being prepared for the next Parliament?

Protection and Trusts.

Of Chapter XI. nothing need be said except that Mr. Balfour appears to be ignorant of the fact that both in Germany and in the United States a powerful minority is in favour of Free Trade, and that even in France there is an appreciable Free Trade party.

Chapter XII. is devoted to describing in terms of envious admiration the system established by the trusts in the United States. According to Mr. Balfour, Protection has this glorious advantage, that it enables the protected manufacturers to form a ring for keeping up home prices and selling cheaply abroad. A delightful system that for the people who have to pay the home prices! But evidently it is the system that Mr. Balfour wants to establish here. He describes how this system enables the manufacturers "to run their works evenly—that is to say, without undue pressure at one period, and without dismissing workmen and leaving plant unused at another."

He apparently has never heard of the way in which

American combines and trusts close down works and dismiss workmen by the thousand. He is so filled with admiration of the American system that he is blind to these little defects, and he appears to be seriously grieved because "no similar policy is open to manufacturers in a Free Trade country." The only disadvantage that Mr. Balfour can see in the Protectionist trust system is the fact that it enables and induces American and German manufacturers to assist British shipbuilders by giving them steel at less than the cost of production. He indignantly condemns this "as a form of competition which most persons would instinctively regard as unfair." He does not seem to know that such "unfair" competition has been part of commerce ever since the world began. If a man has goods on his hands and cannot find a purchaser for them at the price that they cost to produce, he will sell them for less, and wise men will seize the opportunity for making a bargain. The only new feature introduced by the Protectionist trust system is the regular practice of charging more to the home than to the foreign purchaser. This is the feature that appears to fascinate Mr. Balfour, but he is wrong in imagining that even this delightful system will guarantee the protected manufacturer against the vicissitudes of trade. The heavy fall in the value of the shares of the Steel Trust is an incident that might surely have arrested Mr. Balfour's attention when he was penning those pages.

A Certain Loss : a Problematic Gain.

There remain only two chapters. These contain what, for want of a better word, we must call Mr. Balfour's "conclusions." He admits that "judged by all available tests, both the total wealth and the diffused well-being of the country are greater than they ever have been;" but he declares that there are dangers ahead against which we ought at once to guard. The remedy he advocates is the policy of retaliation. It

is to this end that all his previous argument was intended to lead, and so far as any definite proposal can be extracted from his pamphlet at all, the proposal is that Great Britain should impose retaliatory tariffs upon foreign goods in order to force other countries to become Free Traders.

By way of commending this proposal to his Protectionist friends, some of whom would like something else, he elaborately mis-states the Free Trade case against it. He says, page 30:—

"Could you prove to them that by risking the imposition of the most trifling Protective tariff at home it was possible to secure the greatest relaxation of Protective tariffs abroad, they would only answer, 'We must not do evil that good may come of it.'"

It is easy to score a dialectical victory by attributing to your opponents nonsense that they have never uttered. No Free Trader ever said that if you can "secure" a great Free Trade victory abroad by merely "risking" a small Free Trade loss at home, you ought not to do it. There is no man in the world who would not exchange the absolute certainty of a great gain for the mere risk of a small loss. But where is Mr. Balfour's certainty? Where is his "proof" that by risking Protection at home you can secure Free Trade abroad? From the very nature of the case no such proof is possible, and the real position of the Free Trader is that while the loss from retaliation is certain, the gain is at best problematic.

Of course, if we could frighten foreign countries by threats of retaliation which we did not intend to execute, well and good. But our foreign neighbours are not quite so foolish as to be taken in by that game. If retaliation is to be our policy, it must consist not merely of threats, but of executions. Parliament must authorise the imposition of some definite duty on some definite article, and then we must await events. The tax may or may not have the effect intended. Possibly,

indeed, it may provoke fresh tariffs instead of diminishing those that already exist. At any rate, the gain is doubtful, while the loss is certain.

What, then, is that loss? In the first place, no tax can be imposed on any goods now entering this country without injuring the people who habitually buy those goods. Our countrymen will be deprived of the liberty to buy what they want at the price that suits them. Clearly that is a loss to them, and through them to the nation of which they form a part. It may be that the loss is merely a personal one, as when a lady is compelled to pay more for a French silk than she paid before. But it may also happen that the loss is industrial as well as personal, for the retaliatory tariff may fall—as in the case of the Sugar Bill—on the raw material of a British industry, and may thus diminish the power of that industry to compete in the markets of the world. In such a case as this even a trifling retaliatory tariff may work incalculable mischief.

The Creation of Vested Interests.

These are not the only losses. Mr. Balfour talks as if it were a small matter to establish "an element of Protection to home industries." It is not a small matter; it is a very grave matter, for it involves the creation of vested interests which will afterwards be extremely difficult to remove. The "element of Protection to home industries" means that certain manufacturers are endowed by the State with the privilege of extracting from the British consumer a higher price for their goods than they could obtain if the market were open.

Having secured this valuable privilege at the expense of their fellow-citizens, they are not likely to be willing to lose it. People who imagine that the problem of retaliation is a simple one, may be advised to study the history of the British silk trade. The Protection given to

that trade survived the great reforms of Sir Robert Peel, and continued down to the French Treaty of 1860. Here, then, were exactly the conditions that Mr. Balfour desires. We had something to bargain with. We had the revolver that Lord Lansdowne demands —wrapped in silk. The Treaty was negotiated, and France agreed to give us many valuable concessions in return for the abolition of our duties on silk. In the language of Protectionists, that was the price that we had to pay. In the language of accuracy, we, *i.e.*, the British nation, paid no price at all. We received all the profit. We got our silk cheaper and secured greater facilities for trade with France. The whole price was paid by the silk manufacturers, who lost a privilege which Parliament had previously conferred upon them. What has happened since? Have the British silk manufacturers patriotically welcomed their loss as a means of securing a greater good for their country? Not a bit of it! Men will lay down their lives for their country, but they will not forego their profits. The silk industry is the one British industry that has never ceased to clamour for Protection, and its spokesmen to-day even go so far as to attribute their ruin to one-sided Free Trade, whereas they are really the victims of reciprocity.

The Corruption of Parliament.

There is still a third loss, and it is even more serious than the others. As already pointed out, Protection for home industries means the creation of a privilege for one or more favoured individuals. Most people like privileges and most people are willing to pay for them. Imagine an anxious minister eager to retaliate on somebody, and not quite certain where to begin. While he is still in doubt, information is conveyed to him by well-known channels that a little group of manufacturers is willing to make a handsome donation to the party funds if theirs is the trade selected

for favour. No more need be said. The establishment of tariff privileges, whether under the name of Protection or under the name of Retaliation, means the death-knell to the purity of Parliament.

These, then, are the losses which the policy of retaliation must involve. They are certain. Now let us consider what are the possibilities of gain.

The assumption that foreign tariffs will fall down like the walls of Jericho before a blast of retaliation, is absolutely unwarranted either by the experience of the past, or by any reasonable estimate of the probabilities of the future. First, as to the experience of the past. Mr. Balfour appears to imagine that the idea of retaliation is entirely novel, and that the thing has never been tried before. Let him read again his Adam Smith. He will there find, in pages written one hundred and thirty years ago, a convenient summary of the more remarkable tariff wars for a hundred years preceding. Some of these tariff wars led to other wars with pike and musket. They certainly did not lead to Free Trade. Long after Adam Smith, the policy of retaliation continued to flourish in this country, as in others, but the tariff wall against British industries remained as high as ever, and no serious breach was made in that wall until England had abandoned the principle of retaliation and adopted the principle of free imports.

Contemporary experience is equally opposed to Mr. Balfour's theory. Other countries continue to maintain the policy of retaliation. Does it bring Free Trade to them? On the contrary, Mr. Balfour declares that their tariffs are growing higher and higher. Meanwhile, any incidental reduction of tariffs that may be brought about by their power of bargaining with one another, at once redounds to our advantage, for by virtue of our policy of free imports we are entitled to the lowest tariffs that foreign countries levy upon one another's goods.

Therefore there is nothing either in our own past

experience or the present experience of our neighbours to give any support to Mr. Balfour's theory that Free Trade can be secured by means of retaliation.

Next let us look at the theory itself and ask whether there is any reasonable probability that it could be successfully applied. In the first place, it requires for its scientific application ministers who possess quasi-despotic powers, and who also possess a wide and an *impartial* knowledge of the requirements of British industry and the weaknesses of foreign competition. It is not easy to see how these two conditions could be satisfied under our system of Parliamentary Government. But suppose they were satisfied. Suppose we possessed the intelligent despot who knew how to prepare for battle as well as to provoke war. What could we do?

Why Our Hands Are Tied.

Few people seem to realise that it is generally impossible to retaliate directly. For example, Germany injures us by a duty on British iron and steel, but we cannot retaliate directly by a duty on German iron and steel, for the simple reason that our exports of these commodities to Germany are greater than our imports of similar commodities from Germany. Thus the German ironmaster has a greater interest in ousting us from his home market than in securing our market for himself. That is, indeed, the only reason why he wants a duty at all. Consequently, if we put a duty on German iron and steel, the German ironmaster would at once go to the Reichstag and ask for an increase of the duties already levied on British iron and steel. That would obviously be his interest, and it would be the interest of the German Reichstag to comply with his petition in order to prove to us that two can play at the game of retaliation. This consideration affects almost all our main industries. We cannot retaliate because we export so largely. Our

hands are tied, not by Free Trade dogmas, but by the very magnitude of the export trade that we have built up since we took those dogmas as our guide.

All we can practically do if we wish to retaliate is to select some article which we import in large quantities, and which we export only in small quantities or not at all. Our importation of the penalised article must be large, or else the foreign country would not feel the penalty; our exportation must be small, or else we should lay ourselves open to a dangerous counter attack. Any one who will go through the list of our imports and exports will speedily discover that these two conditions exclude manufactured articles. In other words, the policy of retaliation which Mr. Balfour advocates involves either the taxation of raw materials, which he has explicitly condemned in the House of Commons, or the taxation of food, which he refuses even to mention in his pamphlet. Thus the very minister who advocates retaliation proves by his speeches, or by his silence, that he has not grasped the conditions under which retaliation would alone be possible. His own record achievement in the direction of retaliation is the Sugar Bill of last Session, which has not only imposed a heavy direct loss on the United Kingdom, but which has already provoked a serious counter-stroke from Russia.

Our Insular Free Trade.

Yet he now asks for unlimited power to point a revolver at neighbouring nations—who like ourselves are not devoid of national pride—and who, happen to be our best customers as well as our rivals. Such a proposal, so lightly made, after such a record, shows the utter unfitness of Parliamentary politicians to deal with commercial problems. This has always been the contention of Free Traders. They hold that men of commerce should be left free to deal with their

own problems, without the attempted assistance of politicians who neither understand the difficulties nor have any real power to remove them. This has been the principle on which our country has proceeded now for sixty years. It is the basis of that Free Trade which Mr. Balfour would destroy. Our Insular Free Trade has secured to us the priceless boon of a Parliament that is free from pecuniary corruption; it has enabled us to maintain upon our little island, in ever-increasing prosperity, a population larger and already more prosperous than can be found on any equal area of the world's surface; it has added to the loyalty, and aided the expansion, of our world-embracing Empire; and it has helped to prolong for all mankind the blessing of peace.

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